



NON-TEACHER SCHOOL EMPLOYEE
RETIREMENT SYSTEM OF MISSOURI

THREE YEARS ENDED JUNE 30, 1999

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-51
June 26, 2000
www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

June 2000

www.auditor.state.mo.us

The following report is our review of the Non-Teacher School Employee Retirement System of Missouri.

There were no audit findings regarding this retirement system.

The State Auditor is required by state law to review the audits of the Non-Teacher School Employee Retirement System of Missouri. The system's Board of Trustees has contracted with private certified public accounting firms to perform annual financial audits of the retirement system.

The Non-Teacher School Employee Retirement System of Missouri was created October 13, 1965, and is governed by Chapter 169 of the Revised Statutes of Missouri. This system is a mandatory cost-sharing multiple employer retirement system for all public school district employees in Missouri (except the school districts of St. Louis and Kansas City) and community college district employees (except the Community College of St. Louis) who work 20 or more hours per week on a regular basis and who are not contributing members of the Public School Retirement System. The system also includes non-certificated employees of the Non-Teacher School Employee Retirement System and the Public School Retirement System. A summary of the retirement, death, and disability benefits provided to members is included in our report.

Copies of this audit are available upon request.

YELLOW SHEET

NON-TEACHER SCHOOL EMPLOYEE
RETIREMENT SYSTEM OF MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Mel Carnahan, Governor
and
Board of Trustees
and
Joel Walters, Executive Director
Non-Teacher School Employee Retirement System
of Missouri
Jefferson City, Missouri 65102

The State Auditor is required under Section 169.020.22, RSMo Cumulative Supp. 1999, to review the audit of the records and accounts of the Non-Teacher School Employee Retirement System of Missouri. The Board had engaged KPMG, LLP to perform the annual financial audits of the system for the years ended June 30, 1999 and 1998, and Evers and Company, Certified Public Accountants (CPAs), L.L.C., to perform the annual financial audit of the system for the year ended June 30, 1997. We reviewed the reports and substantiating workpapers of the CPA firms. The scope of our review included, but was not necessarily limited to, the period of July 1, 1996 to June 30, 1999. The objectives of this review were to:

1. Review certain financial activity and related procedures, and examine compliance with certain constitutional provisions, statutes, administrative rules, and attorney general's opinions.
2. Examine certain management practices.

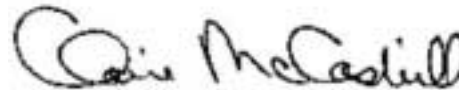
Our review was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the system's board minutes, various contracts, and other pertinent policies, and discussed various system procedures with applicable personnel.

As a part of our review, we assessed the system's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation.

Our review was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we perform additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This background information was obtained from the system's management and was not subjected to the procedures applied in our review of the Non-Teacher School Employee Retirement System of Missouri.

The accompanying Management Advisory Report presents our findings and recommendations arising from our review of the Non-Teacher School Employee Retirement System of Missouri.

A handwritten signature in black ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

April 10, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Douglas J. Porting, CPA
In-Charge Auditor:	Gayle A. Garrison

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Recommendations

NON-TEACHER SCHOOL EMPLOYEE
RETIREMENT SYSTEM OF MISSOURI
MANAGEMENT ADVISORY REPORT-
STATE AUDITOR'S RECOMMENDATIONS

In addition to our review of the reports and substantiating working papers of KPMG, LLP, and Evers and Company, CPAs, L.L.C., we included those procedures which we considered necessary in the circumstances.

We reviewed probable compliance with certain constitutional provisions, statutes, administrative rules, and attorney general's opinions as we deemed necessary or appropriate. This review was not intended to provide assurance of full compliance with all regulatory provisions and, thus, did not include all regulatory provisions which may apply. Nevertheless, our review disclosed no conditions that represent significant violations.

The period of review for the purpose stated above included, but was not necessarily limited to, the three years ended June 30, 1999.

This report is intended for the information of the system's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

STATISTICAL SECTION

History, Organization, and
Statistical Information

NON-TEACHER SCHOOL EMPLOYEE RETIREMENT
SYSTEM OF MISSOURI
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Non-Teacher School Employee Retirement System of Missouri (NTRS) was created October 13, 1965, under an act of the 73rd General Assembly, commenced actual operations on November 1, 1965, and is governed by Chapter 169 of the Revised Statutes of Missouri. The NTRS is a mandatory cost-sharing multiple employer retirement system for all public school district employees in Missouri (except the school districts of St. Louis and Kansas City) and community college district employees (except the Community College of St. Louis) who work 20 or more hours per week on a regular basis and who are not contributing members of the Public School Retirement System (PSRS). The system also includes non-certificated employees of the NTRS and the PSRS. The NTRS is a defined benefit plan providing service retirement, death, and disability benefits to its members.

The responsibility for the operation and administration of the retirement system is vested in the PSRS Board of Trustees, sitting as the governing board for NTRS. The Board consists of three elected PSRS members, one elected NTRS member, and three persons appointed by the Governor. The members from the PSRS and NTRS are elected from the active and retired members of the retirement systems. Two elected trustees are seated each even-numbered calendar year to serve four-year terms. Two governor-appointed trustees are seated in even numbered years that coincide with Presidential elections. The third governor-appointed trustee is seated in even numbered years which do not coincide with Presidential elections. The Board of Trustees as of June 30, 1999, were as follows:

<u>Name</u>	<u>Position</u>	<u>Membership</u>	<u>Term Expires</u>
Laurel S. Cochenet	Member	Appointed *	June 30, 2000
Louetta Floyd	Member	Elected (PSRS)	June 30, 2000
Wayne Wheeler	Member	Elected (PSRS)	June 30, 2000
Veronica Hambacker	Chair	Elected (PSRS)	June 30, 2002
Nancy Gaines	Member	Elected (NTRS)	June 30, 2002
William J. Wasson	Member	Appointed (Retired) *	June 30, 2002
Lynn Harmon	Member	Appointed	June 30, 2002

* Appointed by the state Board of Education in accordance with superseded Section 169.020.2, RSMo Cumulative Supp. 1997. Upon expiration of these terms, the Governor will appoint the replacement members in accordance with Section 169.020.2, RSMo Cumulative Supp. 1999.

M. Steve Yoakum served as Executive Director to the board until April 1997. Joel Walters was appointed April 16, 1997. The Executive Director is responsible for employment of the retirement office staff, routine operation of the system, and advising the board on all matters pertaining to the system.

The Segal Company, of Englewood, Colorado, served the board as actuarial consultants prior to June 17, 1997. The Board of Trustees appointed Gabriel, Roeder, Smith & Company, of Rolling

Meadows, Illinois, as actuarial consultants on June 17, 1997. As of June 30, 1999, the following investment managers held investments for the NTRS: BlackRock Financial Management, Inc., of New York, New York; NISA Investment Advisors, of St. Louis, Missouri; Sovran Capital Management, of Richmond, Virginia; State Street Global Advisors, of Boston, Massachusetts; Wellington Management Company, of Boston, Massachusetts; Alliance Capital Management, of Minneapolis, Minnesota; Barrow, Hanley, Mewhinny, & Strauss, of Dallas, Texas; Brinson Partners, Inc., of Chicago, Illinois; Dimensional Fund Advisors, of Santa Monica, California; DSI International Management, Inc., of Norwalk, Connecticut; TCW Asset Management Company, of Los Angeles, California; Thomson, Horstmann & Bryant, Inc., of Saddle Brook, New Jersey; Bank of Ireland Asset Management, of Dublin, Ireland; INVESCO Global Asset Management, Inc., of Atlanta, Georgia; and Oechsle International Advisors, of Boston, Massachusetts. State Street Bank and Trust Company, of Boston, Massachusetts serves as the system's master custodian. Strategic Investment Solutions, Inc., of San Francisco, California serves as the system's investment consultant. Thompson Coburn, Attorneys at Law, of St. Louis, Missouri serves as the system's general counsel. KPMG, LLP serves as the fund's independent auditor.

As of June 30, 1999, there were 41,599 active members, 10,057 inactive members, and 12,461 retired members and beneficiaries receiving benefits.

As of June 30, 1999, membership, required contributions, and benefits provided under the NTRS are generally as follows:

Eligibility

NTRS membership is automatic, regardless of position, for all persons not covered by the PSRS who are regularly employed for 20 or more hours a week by the public school districts in Missouri (except the St. Louis and the Kansas City school districts), public junior college districts (except the Community College District of St. Louis) in Missouri, and the Board of Trustees of the retirement system. Prior to August 28, 1997, certificated part-time employees whose service would qualify them for membership in the NTRS could elect instead to become members of PSRS. Effective August 28, 1997, part-time certificated employees working twenty or more hours per week automatically become a PSRS member, or have the option of being a member of the NTRS. Members working in covered employment are considered active members and members not working in covered employment are considered inactive members.

Employee Contributions

Active members contributed 4.5 percent of gross salary for the year ended June 30, 1999 and 4.3 percent of gross salary for the years ended June 30, 1998 and 1997 to the NTRS. The contributions are deducted and remitted by the employer, and are credited by NTRS to individual member accounts. Since July 1, 1989, member contributions have been tax-deferred for federal and state income tax purposes.

Interest, at a rate set each year by the Board of Trustees, is credited to individual member accounts each June 30 based on the previous June 30 balance. The rate credited on June 30, 1999, 1998, and 1997 was six percent.

Member contributions plus interest are fully refundable upon termination of service or death. All credit and benefit rights are forfeited upon voluntary withdrawal or automatic termination of membership. Voluntary withdrawal is available to members who cease covered employment. Automatic termination occurs when a non-vested member is absent from covered employment for five consecutive school years. A member may, upon returning to covered employment, reinstate the credit forfeited through termination of a previous membership by repaying the money withdrawn plus interest.

Employer Participation

The employers served by NTRS withhold members' contributions from salary payments and match those contributions. Employer contributions and investment earnings on those funds are placed by NTRS in a general reserve account to pay monthly benefits to retirees and to beneficiaries of deceased members. Employers are responsible for remitting contributions promptly and for furnishing contribution information and new member records to NTRS. Employers also provide needed data when members apply for benefits or refunds of contributions upon termination of employment. Unlike employee contributions noted above, employer contributions are not refunded to the employer upon a member's voluntary withdrawal from the system, termination of service, or death.

Service Retirement Benefits

Service retirement benefits are payable to members who have terminated covered employment and who have met certain eligibility requirements. All service retirement benefits are based on a formula which multiplies final average salary by the applicable formula factor, by the years of creditable service and, in the case of early retirement, by an age reduction factor. Final average salary is obtained by dividing the total compensation payable to a member for the highest five consecutive years of service by sixty; the applicable factor is determined by the type of retirement eligibility; total credit is the amount accumulated at retirement for covered service and purchased credit; and the age factor, where applicable, is determined by the age at retirement. Effective August 28, 1997, the board may set a maximum percentage increase in annual compensation from one year to the next in the final average salary period. The board set a twenty percent cap on the increase in annual compensation in the final average salary period effective July 1, 1997 using the 1997-1998 school year as the base period and the 1998-1999 school year as the first year of applicability.

NORMAL RETIREMENT

Prior to July 1, 1998, a member could retire with benefits calculated under the standard (.0135) formula factor at age sixty with five years of credit, at age fifty-five with twenty-five years of credit, or at any age with thirty years of credit. A special provision in effect until July 1, 1998 allowed members under age fifty-five, with twenty-five, but less than thirty years of credit to retire with benefits calculated under a modified formula factor ranging from .0125 to .0133 (based on years of credit) but with no age reduction factor applied.

Effective July 1, 1998, a member may retire with benefits calculated under the standard (.0145) formula factor at age sixty with five years of credit, at age fifty-five with twenty-

five years of credit, or at any age with thirty years of credit. A special provision in effect until July 1, 2000 allows members under age fifty-five with twenty five, but less than thirty years of credit to retire with benefits calculated under a modified formula factor ranging from .0135 to .0143 (based on years of credit) but with no age reduction factor applied.

EARLY RETIREMENT

Prior to July 1, 1998, a member could retire with benefits calculated under the standard (.0135) formula with an age reduction factor applied, at age fifty-five with five years of credit.

Effective July 1, 1998, a member may retire with benefits calculated under the standard (.0145) formula with an age reduction factor applied, at age fifty-five with five years of credit.

PAYMENT OPTIONS

A retiring member may elect to receive the maximum benefits payable under the Single Life option, or may elect to receive a reduced benefit under one of three Joint-and-Survivor options or under one of two Term-Certain options, to provide survivor benefit coverage in varying degrees after the retiree's death.

ACCELERATED PAYMENT PLAN

The Accelerated Payment Plan (APP) is an early retirement option for NTRS members. The plan, which became effective February 1, 1999, allows members to accelerate the payment of their benefit until age 62. When the member reaches the minimum Social Security eligibility age of 62, the benefit will be reduced, even if the member does not apply for their Social Security benefit at that time. In most cases, the APP allows a member to maintain a fairly level income throughout retirement. The member is allowed to choose any survivor plan in conjunction with the APP.

Cost-of-Living Adjustments

Each year during which the board determines that the cost-of-living index has increased, the retirement allowance of each retired member, who has been retired for more than three years, shall be increased by up to five percent of the benefit payable, effective in the following January. The total of such increases may not exceed 75 percent.

Disability Retirement Benefits

Disability retirement benefits are payable to eligible members who because of permanent disability are unable to earn a livelihood in any occupation. The disability retirement benefit is calculated at 90 percent of the normal service retirement benefit.

Withdrawal Benefit

If a member ceases to be a public school employee, or if the membership is otherwise terminated, he receives his accumulated contributions with interest. If a member ceases to be a public school employee after five or more years of creditable service, the member may elect to leave his contributions in the system and claim a retirement allowance any time after he reaches the minimum age for voluntary retirement.

Death and Survivor Benefits

When a member dies before retirement, the designated beneficiary becomes eligible for a lump sum refund of the member's contributions and interest. In lieu of a lump sum refund, beneficiaries with an insurable interest and eligible beneficiaries of disability retirees may elect to receive monthly benefits under the Option 2 retirement plan. Such benefits are payable when the member would have been eligible for early or normal retirement.

Reciprocity

Vested members in the system who have vested credit in another Missouri system having a reciprocity agreement may transfer such credit to this system. The funds transferred are used to establish additional credit in this system based on actuarial reserve calculations. Likewise, members leaving the system may have funds transferred to another Missouri system under certain conditions. A vested member of any of the Missouri systems may buy credit in the vested system for non-vested services in any of the other Missouri systems, not to exceed the credit in the non-vested system.

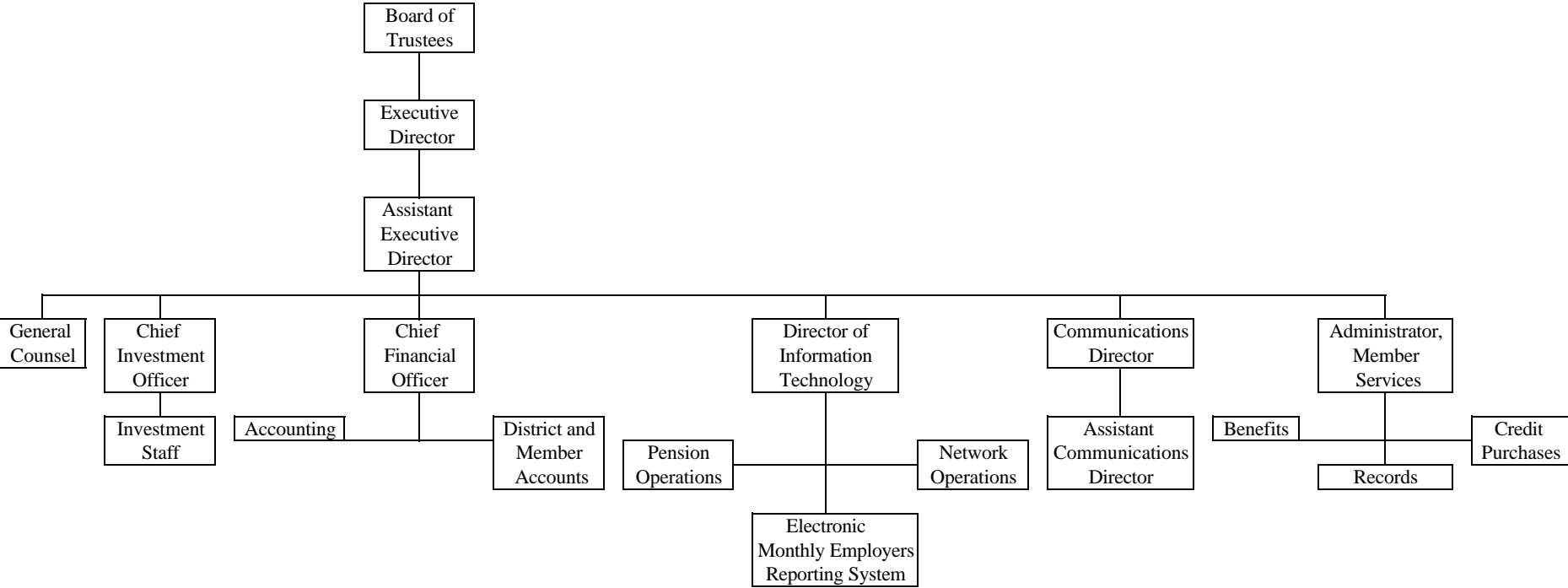
Temporary Early Retirement Window

During the two-year period from July 1, 1996 through July 1, 1998, members under age fifty-five with at least twenty-five, but less than thirty years of service had the opportunity to retire under a modified benefit formula, with no benefit reduction because of age. Benefits for those who retired under the modified plan were calculated using the following formula factors in lieu of the standard 1.35 percent factor: for twenty five years of service, 1.25 percent; for twenty-six years, 1.27 percent; for twenty-seven years, 1.29 percent; for twenty-eight years, 1.31 percent; and for twenty-nine years 1.33 percent.

During the two-year period from July 1, 1998 through July 1, 2000, members under age fifty-five with at least twenty-five, but less than thirty years of service will have the opportunity to retire under a modified benefit formula, with no benefit reduction because of age. Benefits for those who retire under the modified plan will be calculated using the following formula factors in lieu of the standard 1.45 percent factor: for twenty five years of service, 1.35 percent; for twenty-six years, 1.37 percent; for twenty-seven years, 1.39 percent; for twenty-eight years, 1.41 percent; and for twenty-nine years 1.43 percent.

An organization chart follows. At June 30, 1999, the NTRS had no employees. On January 1, 1997, all existing NTRS employees were transferred to the PSRS and the PSRS assumed responsibility for all administrative duties related to the operations of the NTRS.

NON-TEACHER SCHOOL EMPLOYEE RETIREMENT SYSTEM OF MISSOURI
ORGANIZATION CHART
JUNE 30, 1999



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